

Press Release

D R Coats Ink and Resins Private Limited

September 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Upgraded from ACUITE BBB-/ Stable)
Short Term Rating	ACUITE A3+ (Upgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.35.00 Cr bank facilities of D R Coats Ink and Resins Private Limited (DRPL). The outlook is '**Stable**'.

Rationale for rating revision

The upgrade in the rating reflects the improvement in the revenues and margins in FY2021 (Provisional), moderate financial risk profile with comfortable debt protection metrics, adequate liquidity position and improvement in absolute operating profit and net profit in FY2021 (Provisional). The rating also reflects the expected improvement in the revenues and margins going forward due to high demand & expected industry growth along with healthy order book position providing adequate revenue visibility over the medium term.

About the Company

Mumbai-based, DRPL was incorporated in 2003 by Mr. Amit Drolia and family. The company is engaged in manufacturing of synthetic resins such as polyamides, ketonic resins, and epoxy resins which finds application in the production of paints, ink, adhesives, wood polish and acrylics. Further, the company has added a new product line for aldehyde hydrate, which is used in paints and printing. DRPL has two manufacturing units situated at Tarapur and Mahad (Maharashtra). The installed capacity of Tarapur unit stands at 10000 MTPA and of Mahad unit stands at 15000 MTPA.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of DRPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

DRPL, incorporated in 2003, holds established track record of operations for nearly two decades. The company is promoted by Mr. Amit Kumar Drolia and Mrs. Yashashvi Drolia. Mr. Drolia has more than two decades of experience in the resins industry. The promoter's experience in resins industry has helped the company in building healthy relationship with its suppliers and customers. Exports account for around 30-40% of the total sales and the company exports to more than 55 countries which includes USA, Australia, Africa, Middle East Countries, etc. The paint and adhesives segments account for nearly 60-65% of the total sales of the company over the past four-five years, followed by ink segment contributing 15-20% and remaining 15-20% of the sales being from furniture and acrylic industry. DRPL booked revenue of Rs.160.06 crore for FY2021 (Provisional) against Rs.140.76 crore for FY2020 representing a growth of ~14 percent. The Company has already achieved turnover of Rs.108.52 crore upto August 31, 2021. The company has sufficient orders in hand which is expected to be completed in the next 1 to 1.5 months. This gives adequate revenue visibility over the medium term. Also, the company has a diversified and reputed client base of more than 400 clients across the world. The top 10 customers of the company constitute about 58 percent of the total turnover.

Acuité believes that DRPL will sustain its existing business profile on the back of its experienced management and established customer and supplier relations over the near to medium term.

- **Moderate financial risk profile**

The financial risk profile of DRPL is moderate marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and comfortable debt protection metrics. The gearing stood at 1.33 times as on March 31, 2021 (Provisional) against 1.35 times as on March 31, 2020. TOL/TNW stood at 2.99 times as on March 31, 2021 (Provisional) against 3.11 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.26.71 crore as on March 31, 2021 (Provisional) against Rs.23.40 crore as on March 31, 2020. The total debt of Rs.35.44 crore as on March 31, 2021 (Provisional) mainly consists of long-term debt of Rs.9.35 crore, short-term debt of Rs.22.97 crore and unsecured loans of Rs.3.13 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 2.25 times and 0.14 times respectively in FY2021 (Provisional); while DSCR stood at 1.35 times in FY2021 (Provisional).

The company has availed Covid Loan (BCECL) of Rs.2.30 crore in June, 2020 and the repayment is expected to be completed by June, 2022. The company has also availed Covid Loan (BGECLS) of Rs.4.47 crore in October, 2020 and the repayment is expected to be completed by October, 2024.

Acuité believes that the financial risk profile of the company is expected to remain moderate on account of modest net worth backed by moderate cash accruals vis-à-vis moderate debt repayment obligations and comfortable debt protection metrics.

Weaknesses

- **Working capital intensive operations**

DRPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 176 days in FY2021 (Provisional) against 179 days in FY2020. The inventory days stood at 85 days in FY2021 (Provisional) against 100 days in FY2020. The company generally maintains an average inventory holding policy of 2 months. The debtors' days stood at 83 days in FY2021 (Provisional) against 75 days in FY2020 which is corresponding to normal terms with their customers. However, working capital bank lines remains utilized at 80-90 percent for last trailing 13 months ended August, 2021.

Acuité believes that the working capital operations are expected to improve over the medium term.

- **Susceptibility to fluctuations in raw material prices**

The fluctuations in operating margins is marked by fluctuations in raw material prices. The basic raw materials required by DRPL such as monomer are crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices. Further, DRPL imports part of its raw material from China, Saudi Arabia, Europe & USA and exports its products to more than 55 countries which includes USA, Australia, Africa, Middle East Countries, etc. Thus, it is also exposed to adverse fluctuation in foreign currency exchange rates. However, DRPL's exports are ~31 percent and imports are ~29 percent which leads to natural hedge.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

DRPL has adequate liquidity position as reflected by moderate net cash accruals against moderate repayment obligations. The company generated cash accruals in the range of Rs.2.92 crore – Rs.5.13 crore during the last four years through FY2018-21 against moderate repayment obligations in the range of Rs.1.38 crore – Rs.3.94 crore during the same period. It is expected to generate cash accruals in the range of Rs.8.82 crore – Rs.12.26 crore over the medium term, against moderate repayment obligations in the range of Rs.1.60 crore – Rs.2.76 crore. The unencumbered cash and bank balances stood at Rs.1.82 crore as on March 31, 2021 (Provisional) with a current ratio of 1.11 times in the same period. The working capital limits remains utilized at 80-90 percent for last trailing 13 months ended August, 2021.

Acuité believes that liquidity profile is expected to remain adequate on account of moderate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that DRPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	160.06	140.76
PAT	Rs. Cr.	3.32	2.38
PAT Margin	(%)	2.07	1.69
Total Debt/Tangible Net Worth	Times	1.33	1.35
PBDIT/Interest	Times	2.25	2.12

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Aug-2020	Cash Credit	Long Term	21.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	2.70	ACUITE BBB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	8.90	ACUITE BBB-/ Stable (Reaffirmed)
20-Jun-2019	Cash Credit	Long Term	21.00	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	3.11	ACUITE BBB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A3 (Reaffirmed)
	Buyers Credit	Short Term	9.00	ACUITE A3 (Withdrawn)
	Proposed Bank Facility	Long Term	6.49	ACUITE BBB-/ Stable (Reaffirmed)
28-Mar-2018	Cash Credit	Long Term	12.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	4.17	ACUITE BBB-/ Stable (Assigned)
	Packing Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.40	ACUITE A3 (Assigned)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	Buyers Credit	Short Term	9.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	5.43	ACUITE BBB-/ Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Bank of Baroda	Term Loan I	July, 2016	10.10%	July, 2023	2.08	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Bank of Baroda	Term Loan II	June, 2020	7.50%	June, 2022	1.63	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Bank of Baroda	Term Loan III	October, 2020	7.50%	October, 2024	4.47	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)
Bank of Baroda	Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00#	ACUITE A3+ (Upgraded from ACUITE A3)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A3+ (Upgraded from ACUITE A3)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.42	ACUITE BBB/ Stable (Upgraded from ACUITE BBB-/ Stable)

#Includes sublimit of PC/PCFC facility to the extent of Rs. 1.50 crore. Interchangeability from Packing Credit to Cash Credit facility to an extent of Rs.2.00 crore.

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About Acuité Ratings & Research:

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